RECORD AND BRIEFS

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No. 16–712

In the Supreme Court of the United States

OIL STATES ENERGY SERVICES, LLC,
Petitioner,

v.

GREENE'S ENERGY GROUP, LLC, *et al.*,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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BRIEF OF J. KENNETH BLACKWELL; PAUL CAPRIO; JAMES EDWARDS; COLIN HANNA; MATTHEW KANDRACH; KEVIN L. KEARNS; GEORGE LANDRITH; CURT LEVEY; EDWARD R. MARTIN, JR.; JAMES L. MARTIN; JENNY BETH MARTIN; AND C. PRESTON NOELL III AS *AMICI CURIAE* SUPPORTING PETITIONER

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QUESTION PRESENTED

Whether *inter partes* review, an internal process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents, violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury?

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INTEREST OF *AMICUS CURIAE*[1]

Amici are thought and policy leaders, who serve in various management and leadership capacities in a variety of conservative and libertarian think tanks and public policy organizations. The names and affiliations of individual *amici* appear in the Appendix A.

Amici have no direct stake in the outcome of the present litigation. Instead, the *amici* believe that the constitutional protections of private property apply with equal force to intellectual property, and that it is these protections that have made the United States the freest and most prosperous society in the history of the world. Many of the amici are associated with public policy organizations that stand for private property rights, American constitutionalism, and inventors securing their inherent rights through patents.

The amici agree with the Founding Fathers' recognition that the right to security in one's property is a *sine qua non* of liberty and forms a great bulwark against an imperious government. Consistent with these views, the amici believe that a system that allows an administrative agency to vitiate private property rights, even in the face of binding judicial determinations to the contrary, severely undermines the very foundation of the society's structure.

For these reasons, the *amici* urge the Court to reverse the decision below.

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[1] Rule 37 statement: All parties have filed a general consent for all *amicus* briefs. No counsel for any party authored this brief in whole or in part. No person or entity other than *amicus* funded its preparation or submission.

SUMMARY OF ARGUMENT

The Constitution vests Congress with the authority "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." In furtherance of that authority, Congress has, throughout history, enacted various Patent Acts. Congress' most recent foray into the patent field has been the America Invents Act ("AIA"), Pub. L. No. 112–29, 125 Stat. 284 (2011), 35 U.S.C. § 100, *et seq*. The AIA, in a break with over 200 years of precedent, permitted an administrative tribunal to invalidate previously issued patents. The *inter partes* review authorized by 35 U.S.C. §§ 311–319, permits the Patent Trial and Appeal Board ("PTAB")—an administrative tribunal housed entirely within the Patent and Trademark Office ("PTO")—to cancel existing patents irrespective of when they issued, how many times they have been upheld in the courts, or even how many layers and rounds of review they have survived within the Patent Office itself.

The practices adopted by the PTAB have resulted in unfairness to the litigants, and the lack of certainty in the property rights in patents. The structure and function of the PTAB are at odds with the status of patents as private property rights, and the Federal Circuit's decision upholding the system ignored two centuries of this Court's decisions. It cannot stand.

Over the years, Congress has debated and tried different methods to improve "patent quality," but one thing remained constant — the understanding that a patent, once issued, could only be invalidated in judicial proceedings before an Article III court. In

2011, however, with the passage of the AIA this two-century long consensus was abandoned. Instead, Congress created a process, housed entirely within the executive branch, to cancel vested rights with little protection or concern for the rights holder. Not only does this approach undermine the valuable property rights in patents, it destabilizes the delicate balance between the three branches of government. The administrative state cannot be allowed to extend this far, and the Court should, by reversing the decision below, take the opportunity to set firm limits on Congressional attempts to expand the power of the political branches at the expense of the federal judiciary.

ARGUMENT

I. Patents Rights Are and Have Always Been Treated On Par with Rights to Land

Underlying the Federal Circuit's decision in this case is the erroneous conclusion that court reached in *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015). There, the Court of Appeals held that patents are little more than a "public right" created by the grace of Congress and therefore susceptible to adjudication in whatever forum Congress chooses. *Id.* at 1291–93. This holding flies in the face of this Court's unbroken line of precedents stretching back over two centuries. When it comes to patent law, "a page of history is worth a volume of logic." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395 (2006) (Roberts, C.J., concurring) (quoting *New York Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921) (opinion for the Court by Holmes, J.)).

A. The Early Courts Were Unanimous That Patents Are Private Property Rights

The Patent Act was one of the earliest statutes enacted by the very first Congress. *See* Act of Apr. 10, 1790, ch. 7, § 5, 1 Stat. 109. Given the long history of patent law, courts, including this one, have had a number of opportunities to construe both the various patent statutes and the constitutional provisions governing the securing of patent rights. The historical record reflects a striking unanimity in the judicial decisions construing patents as private property rights.

The early courts hewed to the view that inventors obtain property rights to their inventions not because

of patents, but because they have discovered something new, previously unknown to society. A patent was certainly required to make the property right enforceable, but the right itself "was vested in the inventor, from the moment of discovery," was an "indefeasible property in the thing discovered," and was being merely "perfected by the patent." *Evans v. Jordan*, 8 F. Cas. 872, 873–74 (C.C.D. Va. 1813) (Marshall, Circuit Justice), aff'd, 13 U.S. 199 (1815). As this Court explained in *United States v. Am. Bell Tel. Co.*, a patent conveys to the applicant

> [S]o far as respects rights in the instrument itself, *nothing that he did not have theretofore.* The only effect of it was to restrain others from manufacturing and using that which he invented. After his invention he could have kept the discovery secret to himself. He need not have disclosed it to any one. But in order to induce him to make that invention public, to give all a share in the benefits resulting from such an invention, congress, by its legislation made in pursuance of the constitution, has guarantied to him an exclusive right to it for a limited time; and *the purpose of the patent is to protect him in this monopoly, not to give him a use which, save for the patent, he did not have before,* but only to separate to him an exclusive use. The government parted with nothing by the patent. It lost no property. Its possessions were not diminished. *The patentee,* so far as a personal use is concerned, *received nothing which he did not have without the patent,* and the monopoly which he did receive was only for a few years.

167 U.S. 224, 238–39 (1897) (emphasis added).

In *Gray v. James*, 10 F.Cas. 1019 (C.C.D. Pa. 1817), decided just a few years after *Evans v. Jordan*, the plaintiff held a patent for a machine that did not appear to be well (or perhaps at all) functional until the defendant, through his own work came up with an improvement. The plaintiff then sued for the infringement of his patent, and the defendant argued that he owed the plaintiff no damages because the plaintiff's machine was "worthless." Justice Washington, riding circuit, adopted the same view of patents as did Chief Justice Marshall, and emphatically rejected the defendant's argument, labeling it "a non sequitur." *Id.* at 1020. He wrote

> Is the defendant's improved machine valuable? This is admitted. But why is it so? Because he has availed himself of [the plaintiff]'s original discovery on which to ingraft his own, and without which his own would have been useless to himself and to the world. But how did he possess himself of [the plaintiff]'s discovery? By an unlawful *invasion of property* to which [the plaintiff] was exclusively entitled.

Id. at 1020–21 (emphasis added). About a decade after Chief Justice Marshall wrote in *Evans v. Jordan*, this Court, speaking through Justice Story, held that "[t]he inventor has, during [the patent] period, a property in his inventions; a property which is often of very great value, and of which the law intended to give him the absolute enjoyment and possession." *Ex Parte Wood*, 22 U.S. 603, 608 (1824). These rights were not viewed as governmental concession, but in-

stead were recognized as the "dearest and most valuable rights which society acknowledges." *Id.*

Throughout the 19th century, this Court never deviated from the path laid down by Justices Marshall, Washington, and Story in these early cases. Thus, in *Seymour v. McCormick*, the Court was unequivocal that patent "[r]ights, the result of intellectual labor, are no doubt sacred . . . and that the same *liberality of interpretation* should be extended to the title–deeds of both" the result of intellectual and manual labor. 60 U.S. 96, 102 (1856) (emphasis in original). In *Providence Rubber Co. v. Goodyear*, the Court, in resolving a patent infringement dispute, held that there is "no distinction between . . . a patent [for land] and one for an invention or discovery." 76 U.S. 788, 798 (1869). The Court confirmed this maxim in *McClurg v. Kingsland*, 42 U.S. 202, 206 (1843), writing that rights "of property . . . existing in a patentee, or his assignee, [are governed] according to the well-established principles of this court in 8 Wheat. 493"—with the cited case being entirely about rights in land. *See Society for Propagation of Gospel in Foreign Parts v. Town of New Haven*, 21 U.S. (8 Wheat.) 464, 493 (1823) (holding that a legislature is without power to diminish vested rights to land); Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents under the Takings Clause*, 87 B.U. L. Rev. 689, 702–03 (2007).

Addressing the question of whether the United States as the grantor of patents could itself practice the claimed invention, the Court was categorical that the "government cannot, after the patent is issued,

make use of the improvement any more than a private individual, without license of the inventor or making compensation to him." *United States v. Burns*, 79 U.S. 246, 252 (1870); *see also United States v. Palmer*, 128 U.S. 262, 271 (1888) (same); *James v. Campbell*, 104 U.S. 356, 358 (1882) (same); *Cammeyer v. Newton*, 94 U.S. 225, 234 (1876) (same).

In short, historically, this Court and other federal courts never entertained any doubts that a "valid patent . . . is just as sacred as any right of property . . ." *Hayden v. Suffolk Mfg. Co.*, 11 F. Cas. 900, 902 (C.C.D. Mass. 1862), aff'd *sub nom. Suffolk Co. v. Hayden*, 70 U.S. 315 (1865).

B. Suggestions that Patents are Mere "Franchises" are Contrary to the Historical Understanding of That Term

The Respondents and some of the *amici* supporting the Respondents may argue that the historical record is far from clear, because the early courts often referred to patents as "privileges" and "franchises" rather than "property." According to this line of argument, a "franchise," being a public trust, is a quintessential public right and therefore can be adjusted and adjudicated accordingly. However, this line of argument misunderstands the historical record and the meaning of the relevant terms in the context of the relevant time period.

It is true that patents were often referred to, somewhat confusingly, as franchises. *See, e.g., Seymour v. Osborne*, 78 U.S. 516, 533 (1870) ("Inventions secured by letters patent are property in the holder of the patent, and as such are as much entitled to pro-

tection as any other property, consisting of a franchise, during the term for which the franchise or the exclusive right is granted."). However, patents were treated vastly differently from public franchises of the type at issue in *Proprietors of Charles River Bridge v. Proprietors of Warren Bridge*, 36 U.S. 420 (1837). As the Court explained in that case "[t]he grant of a franchise carries nothing by implication[, and] every doubt ought to be turned against the party who seeks to" benefit from the franchise. *Id.* at 650. In the *very same case*, though, the Court drew a distinction between such franchises and patents, writing that "[e]ven in cases of monopolies, strictly so called, if the nature of the grant be such that it is for the public good, as in cases of patents for inventions, the rule has always been, to give them a favorable construction." *Id.* at 608.

Similarly, in *Slidell v. Grandjean* while adjudicating a dispute over certain parcels of land in the former Louisiana Territory, the Court held that "where a statute operates as a grant of public property to an individual, or the relinquishment of a public interest, and there is a doubt as to the meaning of its terms, or as to its general purpose, that construction should be adopted which will support the claim of the government rather than that of the individual." 111 U.S. 412, 437 (1884). With patents, the approach was entirely different. Rather than construing them strictly and against the patentee, "it has always been the course of the American courts . . . to construe [utility] patents fairly and liberally, and not to subject them to any over–nice and critical refinements." *Ames v. Howard*, 1 F. Cas. 755, 756 (C.C.D. Mass. 1833) (Story, Circuit Justice). This approach made sense in

light of the understanding that, unlike with a public franchise, where the public gives up valuable rights to the franchisee, "[t]he patentee . . . receive[s] *nothing* which he did not have without the patent . . . ." *United States v. Am. Bell Tel. Co.*, 167 U.S. at 239 (emphasis added). Thus, although the courts used often the same word ("franchise") to describe both patents and government favors, the meaning they assigned to this word very much depended on the legal context in which that word was used.

Much the same can be said about the argument that patents have always been thought of as mere "privileges" rather than "rights." As Professor Adam Mossoff explained, "privilege" in the 18th and 19th century legal discourse was a specialized term of art, and the "early American courts used 'privilege' to refer to those rights that necessarily flowed out of the social compact and thus were secured under express law in civil society." Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent "Privilege" in Historical Context*, 92 Cornell L. Rev. 953, 974 (2007). As Justice Bushrod Washington[2] explained in the famous case of *Corfield v. Coryell*, "privileges" flowed from citizenship and being a member of civil society, rather than from any governmental preference or indulgence. 6 F.Cas. 546, 551–52 (1823). A proper understanding of the patent "privilege," therefore, is as a "civil right[] securing to inventors 'the fruition of their labors' for which this

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[2] Justice Washington was the same Justice that mere six years prior to authoring *Corfield*, wrote the opinion in *Gray* where he emphasized that patent infringement is "an unlawful invasion of property to which [the patentee is] exclusively entitled." 10 F. Cas. at 1021.

'privilege is granted.'" Mossoff, *supra* at 991 (quoting *Goodyear v. Hills*, 10 F. Cas. 689, 690 (C.C.D.C. 1866)).

This understanding of the patent "privilege" continues to find support in the Court's modern jurisprudence.

C. Recent Decisions of This Court Reaffirm that Patents are Private Property Rights

When Congress adopted the 1952 Patent Act, Act of July 19, 1952, ch. 950, §1, 66 Stat. 792, it codified the notion that patents are private property. *See* 35 U.S.C. § 261. As this Court noted in *Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*,"[a]lthough much in intellectual property law has changed in the 220 years since the first Patent Act, the basic idea that inventors have the right to patent their inventions has not." 563 U.S. 776, 785 (2011). The Court reconfirmed that "whatever invention [an inventor] may thus conceive and perfect is his individual property." *Id.* at 786 (quoting *Solomons v. United States*, 137 U.S. 342, 346 (1890)) (alterations in original).

Over the past several terms, the Court has several times reaffirmed the principle that a patent "confers upon the patentee an exclusive property in the patented invention . . . ." *Horne v. Dep't of Agriculture*, 135 S.Ct. 2419, 2427 (2015) (quoting *James v. Campbell*, 104 U.S. at 358). In *Kimble v. Marvel Entm't, LLC*, decided the same day as *Horne*, the Court did not shy away from calling patents "property." 135 S. Ct. 2401, 2410 (2015) (noting that the case lies "at the intersection of two areas of law: property (patents) and contracts (licensing agreements).").

In *Nautilus, Inc. v. Biosig Instruments, Inc.*, this Court once again refused to differentiate between patents and other rights, holding that a patent "'is a property right,' and 'like any property right, its boundaries should be clear.'" 134 S. Ct. 2120, 2125 (2014) (quoting *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730 (2002)).[3]

If the history of the patent law in this Court shows anything, it shows that while patentees did not always win, their legal claims were always treated on par with the legal claims of other property holders who alleged an invasion of their private property rights. The Court of Appeals has failed to heed this clear lesson of history. This Court should correct the Federal Circuit's error.

II. The AIA Does Not Address a New or Unique Problem And the Decision in This Case is Dictated by Precedent

The AIA has been heralded as an important tool to rectify a patent system that has supposedly careened off the rails and has resulted in the proliferation of patents of dubious quality that are exploited by "patent trolls" to the detriment of the American consumer and the economy. In reality, the patent system as it stands today, is no different from any other point in

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[3] Even those of this Court's holdings that have restricted the patent eligibility for certain types of claims did so *because* of the concerns over "the enormous potential for rent seeking that would be created if *property rights* could be obtained in" the relevant subject matter. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 86 (2012) (quoting W. Landes & R. Posner, The Economic Structure of Intellectual Property Law 305–306 (2003)) (emphasis added).

history, and the complaints heard today are nearly verbatim repetition of the complaints of the eighteenth, nineteenth, and twentieth centuries. Given that, there is no reason why this Court should approve the expansion of the administrative state into the area traditionally reserved for the federal judiciary.

A. The Complaints of "Low Quality" Patents Are a Persistent Feature of the Patent System

The first complaints about the patent system began with the first Patent Act. *See* Act of Apr. 10, 1790, ch. 7, § 5, 1 Stat. 109. Writing less than a year after the passage of the Act, Thomas Jefferson, who as Secretary of State served as a member of the Patent Board, wrote that too many patents were being granted for inventions of little significance. *See* 5 The Writings Of Thomas Jefferson, 1788-1792, 279 (Paul Leicester Ford ed., G.P. Putnam's Sons 1895). When Congress changed the procedure of obtaining patents from that of examination to that of simple registration, *see* Act of Feb. 21, 1793, ch. 11, § 10, 1 Stat. 318, the change was presented as necessary for the improvement of the patent system. As Jefferson recounted, the goal of the Act was to have "the whole [subject of patents] turned over to the judiciary, to be matured into a system, under which every one might know when his actions were safe and lawful." Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813). Yet, as soon as the ink on the 1793 Act was dry, the complaints about "low quality" patents were heard again. Thus, in 1809, the Superintendent of Patents wrote that "many of the patents are useless,

except to give work to the lawyers, & others so useless in construction as to be . . . merely intended for sale." Letter from William Thornton, Superintendent, U.S. Pat. Office, to Amos Eaton (May 5, 1809). Federal judges were equally concerned, writing that

> The very great and very alarming facility with which patents are procured is producing evils of great magnitude. . . . Exactions and frauds, in all the forms which rapacity can suggest, are daily imposed and practiced under the pretence of some legal sanction. The most frivolous and useless alterations in articles in common use are denominated improvements, and made pretexts for increasing their prices, while all complaint and remonstrance are effectually resisted by an exhibition of the great seal.

Thompson v. Haight, 23 F. Cas. 1040, 1041 (S.D.N.Y. 1826). The Congress also adopted the view that "[a] considerable portion of all the patents granted are worthless and void," and that patent litigation was "daily increasing in an alarming degree, [and is] onerous to the courts, ruinous to the parties, and injurious to society." Sen. John Ruggles, S. Rep. Accompanying Bill No. 239, 24th Cong., 1st Sess. (Apr. 28, 1836).

The dissatisfaction with the patent system was accompanied with calls for reform. Congress obliged by passing the Patent Act of 1836, which returned the United States to a patent examination system. *See* Act of July 4, 1836, ch. 357, § 7, 5 Stat. 117, 119. The creation of a cadre of professional patent examiners within the Patent Office was supposed to solve the

problems of the 1793 Act. But, of course, the complaints of "low quality" patents persisted. Newspapers referred to the Patent Office as a "shaving shop, a flunkey's office, where evidence is prepared and manufactured regardless of truth, for the benefit of a few monopolists who want their patents extended from time to time," Adam Mossoff, *The Rise and Fall of the First American Patent Thicket: The Sewing Machine War of the 1850s*, 53 Ariz. L. Rev. 165, 198 (2011) (quoting *Sewing Machine-Patent Extension—an Irate Opponent*, 23 Sci. Am. 41, 41 (1870)), while "patentees were often referred to as 'patent sharks' rather than inventors of useful technological improvements." Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. Rev. 881, 889 (2015).

This cycle of reform and complaints has persisted through the Patent Act of 1870, Act of July 8, 1870, ch. 230, § 26, 16 Stat. 198, and eventually the Patent Act of 1952, Act of July 19, 1952, ch. 950, §1, 66 Stat. 792, both of which sought to "'improve patent quality' and curb excessive litigation." Dolin, *supra*, at 889. These complaints and calls for reform have continued unabated after the passage of each subsequent Act, and have persisted to the present day.

In 1980 and 1998, Congress did create two post–grant review mechanisms that are often cited as sufficiently analogous to *inter partes* review for the latter to survive a constitutional challenge. *See* Act of Dec. 12, 1980, Pub. L. No. 96-517, ch. 30, 94 Stat. 3015, codified in 35 U.S.C. §§ 301–307 (creating *ex parte* reexamination proceedings); Act of Nov. 29, 1999, Pub. L. No. 106-113, 113 Stat. 1501, codified in relevant part in 35 U.S.C. §§ 311–318 (2011) (re-

pealed 2012) (creating *inter partes* reexamination). A closer look at these procedures reveals the fundamental difference between them and the *inter partes* review.

First, both the *ex parte* and *inter partes* reexamination are disputes between the patentee and the government itself, rather than between the patentee and a private party. The reexamination process is "conducted according to the procedures established for initial examination." 35 U.S.C. § 305; *see also id.* § 314 (2011). Even in the formerly available *inter partes* reexaminanition, the challengers merely served as an equivalent to an *amicus* in an action between the government and the patentee. Because of the nature of the dispute, it was permissible for the matters to be resolved in an administrative agency. *See Ex Parte Bakelite Corp.*, 279 U.S. 438, 451 (1929). In contrast, *inter partes* review is a regular property dispute wholly between private litigants. It was always meant and serves as a substitute for district court litigation. *See* H.R. Rep. No. 112–98, at 45 (112th Cong. 2011).

Furthermore, unlike *inter partes* review process, which is unfair to patentees, *see* Part III.A, *infa*, the reexamination process provided patentees with a fair opportunity to defend or amend their claims. Throughout the history of *ex parte* reexaminations, only 12% of patents entering the process had all of the challenged claims cancelled. U.S. Patent & Trademark Off., *Ex Parte Reexamination Filing Data—September 30, 2016*, at 2, http://bit.ly/2o5DI3u. During the existence of the *inter partes* reexamination process, only 32% of patents subject to reexami-

nation had all of its challenged claims cancelled. U.S. Patent & Trademark Off., *Inter Partes Reexamination Filing Data—September 30, 2016*, at 1, http://bit.ly/2grw8i8. In contrast, *inter partes* review results in a 76% claim cancellation rate. *See* Harness, Dickey & Pierce, PLC *Harnessing Patent Office Litigation Vol. XVI: A Look at Fifty-One Months of Inter Partes Review Proceedings Before the United States Patent and Trademark Office*, at 1, http://bit.ly/2wHXW86 ("IPR–PGR Report").

This history is important to the understanding that Congress has always been aware that no matter the system it adopts for granting patents, the system will have its shortcomings. Despite the two centuries of experience with the imperfections in the patent system, Congress has always understood that whatever errors are made in granting patents, they have to be resolved in the judicial branch. The AIA has upset this fundamental tenet of American patent law.

B. American Patent Law Has Always Empowered and Trusted Federal Judges and Only Federal Judges to Cancel Improperly Issued Patents

Recognizing that a patent system, of whatever kind, is susceptible to errors, Congress has always provided for an avenue to correct those errors. At the same time, Congress, the executive branch, and the courts understood that a system where patent rights remain fluid and at the mercy of political branches is both unstable and inconsistent with the constitutional design.

The Patent Act of 1790 provided for cancellation proceedings for issued patents. *See* Act of Apr. 10, 1790, ch. 7, § 5, 1 Stat. 109, 111. The Patent Act of 1793 expanded on this practice by increasing the period during which cancellation could be sought from one to three years. Act of Feb. 21, 1793, ch. 11, § 10, 1 Stat. 318, 323. Despite the fact that under the 1793 Act no examination of patent application ever took place and patents issued on the applicant's affirmation only, *see Stanley v. Hewitt*, 22 Fed. Cas. 1043, 1044 (1836), it was well understood that the "[t]he legal effect of the patent; and the title acquired under it, according to the true construction of the patent laws, will remain open for the decision *of the court*." 2 Op. Att'y Gen. 454 (1831) (emphasis added). Then–Attorney General Roger Taney opined that a system where the executive branch could deny an applicant a patent is

> [U]njust to the inventor; for if the department refused to issue the patent on the ground that the part was not, under the patent laws, entitled to the exclusive use of the invention for the period claimed, and this opinion happened to be an erroneous one, the party has no appeal; and, although he may have a lawful right, he will yet, in such a case, be without a remedy.

Id. As will be discussed more fully below, *see* Part III.A, *infra*, today's PTAB suffers from the very problem foreseen by Attorney General Taney nearly 200 years ago.

Although Congress eventually replaced the patent registration system with one that involved patent ex-

amination prior to the issuance of the patent, it remained cognizant of the continued possibility of mistakes and therefore continued to provide for patent cancellation,[4] *see Mowry v. Whitney*, 81 U.S. 434, 441 (1871), and for the ability of individuals to defend against patent suits by arguing the invalidity of the underlying patent. *See* Act of July 4, 1836, ch. 357, § 15, 5 Stat. 117, 123. The resolution of such disputes, however, was strictly committed to the judiciary, notwithstanding any expertise that the professional within the Patent Office may have possessed.

The assignment of patent disputes to the federal judiciary was not because Congress lacked imagination or alternative suggestions. For example, under the 1836 Act, when an application for a patent caused an interference with an existing patent (*i.e.*, the application claimed the same subject matter as the already issued patent), the commissioner of patents—an official within the executive branch—was empowered to determine who was the true first inventor and therefore entitled to a patent. Act of July 4, 1836, ch. 357, §§ 8, 5 Stat. 117, 120–21. However, were the commissioner to conclude that it was the second applicant who was the first to invent the claimed subject matter, the commissioner was *not* permitted to cancel the existing patent, notwithstanding the conviction that the patent issued to someone who was not the first inventor. *Id.* § 16, 5 Stat. 117, 123–24. Rather, only a court of competent jurisdiction could adjudge that an issued patent is void and/or that the

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[4] The 1836 Act abolished the private right to cancel the patent, but, as this Court held in *Mowry*, *supra*, left undisturbed the government's power to sue for cancellation before a court of equity.

"applicant [of an interfering application] is [instead] entitled ... to have and receive a patent for his invention." It was only after "such adjudication, if it be in favor of the right of such applicant," would the "Commissioner [be authorized] to issue [a] patent" to an interfering applicant. *Id.*; *Mowry*, 81 U.S. at 436.

Additionally, proposals for administrative review proceedings have been made to Congress since at least the early 20th century. As early as 1918, as the administrative state began to take shape, commentators were calling for "second look" procedures housed within the executive branch, arguing that absent such quality controls, the Patent Office issues patents for things "not invented," "not new," and "not useful," all causing "unsettled, unsafe and unsound business conditions." James H. Lightfoot, *A Proposed Department of Invention and Discovery*, 1 J. Pat. Off. Soc'y 116, 127 (1919). Starting with the 90th Congress, proposals for administrative reconsideration of issued patents were introduced in each subsequent Congress. However, despite considering, debating, and voting on various proposals over the course of nearly a decade and a half, Congress *never* considered a system that would permit anything but a short period following the grant of a patent during which the public could have input into the final patent–granting decision. Even the supporters of the administrative review mechanisms acknowledged that a system where a review could be invoked at any time during a patent's existence would severely undermine the value of, and the property interest in, the most valuable inventions. *See* Edward F. McKie, Jr., *Proposals for an American Patent Opposition System in the Light of the History of Foreign Systems*, 56 J. Pat. Off. Soc'y

94, 100–01 (1974). Furthermore, the defenders of the limited post–issuance review made clear that the goal of such a procedure is "to make patents less vulnerable to attack than they now are." Giles S. Rich, *Foreward—and Comments on Post Issuance Reexamination*, 4 APLA Q.J. 86, 87 (1976). At bottom, up until 2011, everyone, whether or not they were enamored with the Patent Office's procedures and efficiency, understood that the value of patents lies in their stability and their treatment as a private property right. With the passage of the AIA and the creation of the *inter partes* review, Congress abandoned this basic understanding to the great detriment of property rights and the constitutional order. This Court should not follow suit, and instead adhere to its precedent.

C. McCormick Harvesting Authoritatively Resolves the Issue Before the Court

This Court's precedents not only confirm that patent rights are no different than rights in land, but directly resolve the question at hand.

The propriety of administrative patent cancellation has already been adjudicated by this Court in *McCormick Harvesting Mach. Co. v. C. Aultman & Co.*, 169 U.S. 606 (1898). In that case, a patentee sought to obtain a patent reissue—essentially a corrected patent, free from defect that may have infected the original grant—from the Patent Office. Upon examination of the reissue application, the Patent Office concluded that it failed to satisfy the requirements of patentability. Furthermore, because some of the claims in the reissue application were substantially the same as the claims in the original patent, a

question arose whether the rejection of the reissue petition infected the underlying patent. The Supreme Court resoundingly rejected the suggestion. The Court held that whatever the propriety of rejecting the reissue patent and whatever the patentee's reasons for not appealing that rejection may have been, the executive branch possesses no authority to abrogate a duly issued patent. Rather,

> It has been settled by repeated decisions of this court that when a patent has received the signature of the secretary of the interior, countersigned by the commissioner of patents, and has had affixed to it the seal of the patent office, it has passed beyond the control and jurisdiction of that office, and is not subject to be revoked or canceled by the president, or any other officer of the government. It has become the *property* of the patentee, and as such is entitled to the same legal protection as other property.
>
> The *only* authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in *the courts of the United States*, and not in the department which issued the patent. And in this respect a *patent for an invention stands in the same position* and is subject to the same limitations *as a patent for a grant of lands.*

Id. at 609 (emphasis added; internal citations omitted). The reason for the Court's conclusion is rather simple. While the Court has long permitted administrative agencies to adjudicate certain disputes, it has always been clear that "[w]holly private tort, con-

tract, and property cases . . . are not at all implicated" in such schemes and remain the exclusive province of the federal judiciary. *Atlas Roofing Co. v. Occupational Safety & Health Review Comm'n*, 430 U.S. 442, 458 (1977). Simply put, Congress "lacks the power to strip parties contesting matters of private right of their constitutional right to a trial" in an Article III court. *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 51–52 (1989). The *McCormick Harvesting* Court understood that because invention patents are private property rights and stand on equal footing with rights to land, any disputes over them could only be heard in federal courts.

Though there has been a proliferation of administrative agencies since 1898, nothing in the fundamental structure of the constitutional order has changed. *See Whitman v. Am. Trucking Associations*, 531 U.S. 457, 486–87 (2001) (Thomas, J. concurring) (noting that the Constitution "speaks in . . . simple[] terms" when it vests different types of power in the appropriate departments); *cf. Gonzales v. Raich*, 545 U.S. 1, 58–59 (2005) (Thomas, J., dissenting) (concluding the Congressional power to legislate must find support in the "text, structure, and history" of the unchanged constitutional provisions).

Nor has the passage of time changed the understanding that patents are and remain property. *See* Part I, *ante*. Consequently, there is little reason to depart from the clear precedent set in *McCormick Harvesting*. "Overruling precedent is never a small matter. Stare decisis—in English, the idea that today's Court should stand by yesterday's decisions—is 'a foundation stone of the rule of law.'" *Kimble*, 135 S.

Ct. at 2409 (quoting *Michigan v. Bay Mills Indian Cmty.*, 134 S.Ct. 2024, 2036 (2014)). Caution is especially warranted in "'cases involving property and contract rights' [where] considerations favoring stare decisis are 'at their acme.'" *Id.* (quoting *Payne v. Tennessee*, 501 U.S. 808, 828 (1991)).

Congressional concerns about the cost and burden of litigation are entirely legitimate. Nonetheless, under our Constitution, Congress cannot address those concerns by abrogating private property rights or by undermining the separation of powers.

> Structural protections—notably, the restraints imposed by federalism and separation of powers—are less romantic and have less obvious a connection to personal freedom than the provisions of the Bill of Rights or the Civil War Amendments. Hence they tend to be undervalued or even forgotten by our citizens. It should be the responsibility of the Court to teach otherwise, to remind our people that the Framers considered structural protections of freedom the most important ones, for which reason they alone were embodied in the original Constitution and not left to later amendment. The fragmentation of power produced by the structure of our Government is central to liberty, and when we destroy it, we place liberty at peril.

Nat'l Fed'n of Indep. Bus. v. Sebelius, 567 U.S. 519, 707 (2012) (Scalia, Kennedy, Thomas, & Alito, JJ., dissenting). The *inter partes* review proceedings created by the America Invents Act manage simultaneously to undermine vested private property rights in

patents and to degrade the very foundation of "structural protections of freedom" which are "central to liberty." *Id.* The Court should not countenance them.

III. The PTAB Has Crippled the Innovation Economy

The procedures before the PTAB have had a real, adverse effect on the value of property rights acquired long before the AIA came into being. Unlike the goals advanced by the original proponents of limited opposition practice who hoped "to make patents less vulnerable to attack than they now are," the practices before the PTAB achieved the exact opposite result—they made patents more vulnerable to attack. This has both significantly reduced the value of issued patents and negatively affected incentives to innovate. Both of these effects result in the United States becoming less prosperous and, therefore, less free.

A. The PTAB Processes are Unfair to Patentees

In creating the *inter partes* review mechanism, Congress hoped that it would result in an efficient system that would allow quick, fair, and inexpensive resolution of patent claims. *See* Press Release, Sen. Patrick Leahy, Senate Begins Debate on Leahy-Smith America Invents Act (Sept. 6, 2011), http://perma.cc/KH4T-RU7J; Office Patent Trial Practice Guide, 77 Fed. Reg. 48756-01, 48756 (Aug. 14, 2012). The result is anything but. The *inter partes* review is not fair, it is not streamlined, and does not provide certainty to the patentees.

As an initial matter, the *inter partes* review process permits limitless challenges with respect to any given patent. According to the latest statistics, over a third of patents challenged in the PTAB have been subjected to multiple *inter partes* review requests, and an additional 12% have been previously reexamined by the Patent Office. *See* IPR–PGR Report, *supra*, at 1. Some patents have been subjected to a staggering *125* petitions of *inter partes* review. *See* Mathew Bultman, *Fed. Circ. Affirms PTAB Nix of Zond Plasma Patents*, Law360.com (Jan. 18, 2017). With the unending barrage of challenges, no patent is likely to survive for long, and even if it does, the costs that such challenges impose on patentees make the patents potentially worthless. *See* Daniel Golub, ABA Section on Intel. Prop. Law, *IPRs Complicate the Litigation Funding Landscape for Patent Owners*, 8 Landslide 1, 8 (2015) ("When a patent is challenged through multiple IPRs, the costs to a patent holder forced to defend against numerous IPRs mount quickly, and can jeopardize the patent holder's ability to enforce its patents.").

Second, the *inter partes* reviews have such an unfavorable record towards the patentees that a former Chief Judge of the Federal Circuit has referred to them as "patent death squads." Peter J. Pitts, *Patent Death Squads' vs. Innovation*, Wall St. J., June 10, 2015, at A13. The PTAB invalidates 76% of all challenged claims. IPR–PGR Report, *supra*, at 2. The rate of invalidation is largely stable across all technological fields. Thus, 66% of all claims in the chemical and biotechnology arts, 78% in the electrical and computer arts, and 79% in the mechanical arts are cancelled. *Id.* In contrast, empirical studies have concluded that if subjected to proper legal analysis, fewer than a

third of issued patents should be declared invalid. *See* Shawn P. Miller, *Where's the Innovation: An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 Va. J.L. & Tech. 1, 6–7 (2013). The actually observed invalidation rate in the district court litigation on issues of obviousness or anticipation—the only two issues that can be considered in *inter partes* review—confirms the correctness of the Miller study. *See* John R. Allison, *et al.*, *Understanding the Realities of Modern Patent Litigation*, 92 Tex. L. Rev. 1769, 1787 (2014) (graph showing that in district court litigation, patents are found to be invalid or obvious about 30% of the time). These data are also consistent with the invalidation rate in the former *inter partes* reexamination proceedings. *Inter Partes Reexamination Filing Data*, *supra*, at 1.

Furthermore, even those *inter partes* review petitions that rely exclusively on prior art references that have been previously considered by the patent examiner and not found to be invalidating, result in a 93% invalidation rate. Dolin, *supra*, at 928. Thus "not only does the issued patent itself not provide secure property rights, but . . . the consideration of prior art references by the examiner does little to enhance the security of these rights." *Id.*

The fact that the PTAB invalidation rate across all fields of technology is twice as high as that to be expected suggests that the *inter partes* review process is unfair and hostile to the patentees. A close look at the PTAB's procedures shows that *inter partes* reviews are plagued by what in any other forum would be considered to be "procedural irregularity" and further serves to confirm the process' unfairness to the patentees. Aside from the fact that the PTAB permits

seriatim challenges to patents, and aside from the fact that it invalidates patents that have been found to be both valid and infringed by Article III courts, *see, e.g.*, *Ultratec Inc. v. Captioncall, LLC*, __ F.3d. __, Nos. 2016–1708, 2016–1709, 2016–1715, 2017 WL 3687453 (Fed. Cir. Aug. 28, 2017), the Patent Office has designed its procedures to permit maximum arbitrariness in adjudicating cases.

One way in which the Patent Office assures itself a free hand to adjudicate cases is by "stacking" the panels with judges who the director of the Office knows will reach the "right" outcome. The Patent Office has, on several occasions, freely admitted to such a practice. *See Selection Process for Assigning Judges to Expanded PTAB Panels*, http://bit.ly/2x3e6Zz. In at least two cases, where the PTO director chose to employ such a practice, the addition of two judges to a panel caused a decision favoring the patentee to be replaced with one favoring the challenger. *See Target Corp. v. Destination Maternity Corp.*, IPR2014–00508, Paper Nos. 18, 20 (P.T.A.B. Sept. 20, 2014) (original decision); *id.*, Paper Nos. 31, 32 (Feb. 12, 2015) (contrary decision on reconsideration with an expanded panel); *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co.*, IPR2015–00762, Paper No. 12 (P.T.A.B. July 20, 2015) (original decision); *id.*, Paper No. 16 (Oct. 16, 2015) (contrary decision on reconsideration with an expanded panel).

Yet another way in which the *inter partes* review is unfair to litigants is the PTAB's disregard for the prohibition of the institution of an *inter partes* review in cases where "the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner . . . is served with a complaint alleging

infringement of the patent." 35 U.S.C. § 115(b). Instead of faithfully applying the provision, the PTAB has instituted *inter partes* reviews long after the one year statute of limitation has run. It has done so by joining the out–of–time request for institution to other timely requests (even where the timely request was filed by the very same party seeking the joinder). *See Target*, *supra*, Paper No. Paper Nos. 31 at 4 (granting motion for joinder despite the fact that "same patent and parties are involved in both proceedings."); *Nidec*, *supra*, Paper No. 16 at 5 (same). What's more, these decisions, though they have a great impact on the value of the patentee's property rights, cannot be appealed to the courts, *see* 35 U.S.C. § 314(d); *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2136 (2016), presenting the very problem Attorney General Taney warned about nearly two centuries ago. *See* 2 Op. Att'y Gen. 454.

The upshot is that the patentee can never truly be secure in his property rights. The *inter partes* review process has converted a patent, which is "the property of the patentee, and as such is entitled to the same legal protection as other property," into merely a concession that is held only for so long as it pleases the director of the Patent Office. This practice turns the vision of the Founding Fathers on its head. They were familiar with the abuses of the English system, where patents could be freely given and just as freely cancelled by the Crown. *See* Mark A. Lemley, *Why Do Juries Decide If Patents Are Valid?*, 99 Va. L. Rev. 1673, 1681 (2013). The system the Founding Fathers designed for the United States was radically different.

> The United States has no such prerogative as that which is claimed by the sovereigns of England, by which it can reserve to itself, either expressly or by implication, a superior dominion and use in that which it grants by letters-patent to those who entitle themselves to such grants. The government of the United States, as well as the citizen, is subject to the Constitution; and when it grants a patent the grantee is entitled to it as a matter of right, and does not receive it, as was originally supposed to be the case in England, as a matter of grace and favor.

James v. Campbell, 104 U.S. at 358. Yet, the AIA has permitted the Patent Office to treat patents "as a matter of grace," and to allow the patentees to maintain them so long as they possess the government's "favor." The Court should take this opportunity to restore the patent system designed by the Founding Fathers.

B. The PTAB Regulatory Overreach Undermines the Value of Patent Property Rights and the Incentives to Innovate

The abuses of the *inter partes* review process that the PTAB has allowed to occur have had a significant negative impact on the value of private property rights in patents. As the recent White Paper published by the Regulatory Transparency Project of the Federalist Society recounts, "the total effect of . . . the[] problems [with the *inter partes* review] is harming innovation by creating substantial uncertainty about patent rights. . . . The uncertainty in patent rights generated by the PTAB diminishes incentives for the individuals and companies working in the in-

novation economy, as it creates an additional layer of bureaucracy to navigate when these patent owners seek to commercialize or protect their inventions." Alden Abbott, *et al.*, *Crippling the Innovation Economy: Regulatory Overreach at the Patent Office*, at 30, released by the Regulatory Transparency Project of the Federalist Soc'y (Aug. 14, 2017), http://bit.ly/2x1b9cb.

The process of research and development that results in new goods being brought to market is inherently expensive and uncertain. *See id.* at 30–31. For example, the cost of bringing a new drug to market is estimated to be a staggering $2.6 *billion*. Joseph DiMasi et al., *Innovation in the Pharmaceutical Industry: New Estimates of R&D Costs*, 47 J. Health Econ. 20 (2016). And even if the drug is successfully brought to market, there is no guarantee that it will stay there, *see, e.g.*, Barbara Sibbald, *Rofecoxib (Vioxx) Voluntarily Withdrawn from Market*, 171 Canadian Med. Ass'n J. 1027 (2004), or that the maker will be able to recoup the costs. The same concerns apply across all industries and technologies, from computers and cell phones, to airplanes and automobiles.

In all fields, inventors and investors have to make difficult decisions whether to invest their time, money, and energy into an inherently uncertain enterprise. They do so when they can be reasonably secure in the property right that they will obtain in return for their investment. *See John Mezzalingua Assocs., Inc. v. Int'l Trade Comm'n*, 660 F.3d 1322, 1340 (Fed. Cir. 2011) ("Stronger patent rights are also better able to attract investment to support an industry and provide higher returns on those invest-

ments."); *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1531 (Fed. Cir.), supplemented, 64 F.3d 675 (Fed. Cir. 1995), and rev'd on other grounds, 520 U.S. 17 (1997), and adhered to on remand, 114 F.3d 1161 (Fed. Cir. 1997) (Newman, J., concurring) (If "the economic risk in developing new technology is high, . . . the potential return must warrant the risk, and that the return must pay for the failures as well as the successes. . . . [I]n general, a higher return is required for higher risk than for lower risk investment.") (internal citations omitted); *Lexmark Int'l, Inc. v. Impression Prod., Inc.*, 816 F.3d 721, 752 (Fed. Cir.), rev'd on other grounds, 137 S. Ct. 1523 (2017) (noting that "patent law [protects] interests both of those who benefit from inventions and of those who make risky investments to arrive at and commercialize inventions.").

Conversely, "[l]ayering extensive *legal uncertainty* about patents on top of the uncertainties inherent in invention, R&D, and commercialization creates a perfect storm in which the incentives that drive innovators and inventors to feed the U.S. innovation economy no longer function." Abbott, *supra*, at 31. This is not mere academic theory. It is now the everyday reality of investors and innovators. According to some estimates, "U.S. Patents have lost 2/3rds of their value since the AIA was passed in 2011," with a further drop being expected. *See* Richard Baker, *Guest Post: America Invents Act Cost the US Economy over $1 Trillion*, (June 8, 2015), http://bit.ly/1Udw5wV. "Additionally, it is now significantly harder for patentees to license their patents, and the value of the licenses actually agreed to has been significantly reduced post-AIA." Gregory Dolin & Irina Manta, *Taking Patents*, 73 Wash. & Lee L.

Rev. 719, 792 (2016). Little wonder then that "[v]enture capitalists and other commercial entities . . . now widely report that patents no longer provide stable and effective property rights on which to base their investment decisions," Abbott, *supra*, at 32, and that "making it more difficult and costly to enforce patents ... [has] the unintended consequence of diminishing—if not extinguishing—the only true incentive that thousands of innovators presently have to invest the necessary time, money and other resources needed to create a new company from scratch." Statement of Robert P. Taylor before House Subcommittee on the Courts, Intellectual Property, and the Internet (Feb. 12, 2015), http://bit.ly/2vIDT4S.

CONCLUSION

Mark Twain once wrote that "[a] country without . . . good patent laws was just a crab, and couldn't travel any way but sideways or backwards." Mark Twain, A Connecticut Yankee in King Arthur's Court 68 (Harper & Brothers 1889). The *inter partes* review created by the AIA is increasing the odds that the United States will turn from being the foremost leader in innovation and technological progress into just such a crab. The Court should ignore neither the significant constitutional problems with consigning patents to a status lower than other property rights, nor the real–world consequences of such a treatment. For these reasons, the Court should reverse the judgment below.

Respectfully submitted,

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* Institutions of all signatories are for identification purposes only. The undersigned do not purport to speak for their institutions, and the views of *amici* should not be attributed to these institutions.

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